



ROBINSON MCFADDEN
ATTORNEYS AND COUNSELORS AT LAW

ROBINSON, MCFADDEN & MOORE, P.C.

COLUMBIA | GREENVILLE

August 25, 2005

VIA EMAIL & HAND DELIVERY

Mr. Charles Terreni
Chief Clerk of the Commission
Public Service Commission of South Carolina
Synergy Business Park, Saluda Building
101 Executive Center Drive
Columbia, SC 29210

Bonnie D. Shealy
1901 MAIN STREET, SUITE 1200
POST OFFICE BOX 944
COLUMBIA, SOUTH CAROLINA 29202
PH
(803) 779-8900 | (803) 227-1102 direct
FAX
(803) 252-0724 | (803) 744-1551 direct
bshealy@robinsonlaw.com

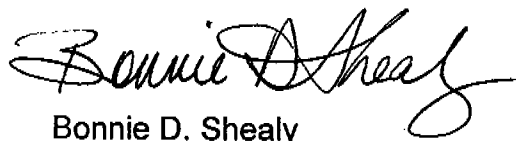
Re: CUC, Inc. – Rate Case
Docket No. 2005-87-WS
Our File No. 30085-0001

Dear Mr. Terreni:

Enclosed for filing please find the Surrebuttal Testimony of George B. Flegal, Jr. on behalf of Callawassie Island Property Owners Association. By copy of this letter we are serving the same all parties of record. Please stamp the extra copy provided as proof of filing and return it with our courier.

Very truly yours,

ROBINSON, MCFADDEN & MOORE, P.C.


Bonnie D. Shealy

BDS/bds
Enclosures

cc/enc: Mr. George B. Flegal, Jr. (via email & U.S. Mail)
Mr. Thomas B. Bayless (via email & U.S. Mail)
Mr. John Adams (via email)
Steven G. Mikell, Esquire (via email & U.S. Mail)
Dan F. Arnett, Chief of Staff of ORS (via email & U.S. Mail)
Shannon Hudson, Esquire, ORS (via email & U.S. Mail)
Ms. Daphne Duke (via email)
Mr. Gil Patrick (via email)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2005-87-W/S

In Re:)
)
Application of CUC, Inc. for Approval)
Of New Schedule of Rates and Charges for)
Water and Sewerage Service Provided)
To its Customers at Callawassie Island)
And Spring Island in Beaufort County)
_____)

SURREBUTTAL TESTIMONY

OF

GEORGE B. FLEGAL, JR.

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND WHOM YOU REPRESENT IN
2 THIS PROCEEDING.

3 A. My name is George B. Flegal, Jr., 28 Spring Island Drive, Okatie, South Carolina 29909,
4 and I represent the Callawassie Island Property Owners Association ("CIPOA").

5 Q. ARE YOU THE SAME PERSON WHO PREVIOUSLY FILED TESTIMON IN THIS
6 PROCEEDING?

7 A. Yes.

8 Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF BILLY F. BURNETT
9 FILED ON BEHALF OF CUC, INC.?

10 A. Yes, I have.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A. My surebuttal testimony comments upon issues raised in Mr. Burnett's rebuttal
13 testimony. In addition, while reviewing my direct testimony I discovered an error in my
14 calculations. Instead of using Beaufort Jasper Water Service Authority's ("BJWSA")
15 current purchased water rate of \$1.64 per 1,000 gals. effective July 1, 2005, for several
16 calculations, I used the old rate of \$1.40. I would like to correct my direct testimony and
17 exhibits as more fully explained below using the current purchased water rate. Attached
18 and incorporated by reference as Exhibit A is my Revised Testimony. This correction
19 affects testimony on pages 5 through 10 and Exhibits 2, 3, and 6.

20 Q. PLEASE EXPLAIN CIPOA'S POSITION REGARDING THE TREATMENT OF
21 SLUDGE EXPENSES.

22 A. Mr. Burnett discusses the Office of Regulatory Staff ("ORS") proposed adjustment to
23 reduce allowable sludge hauling and processing costs by averaging these costs of a two
24 year period. I disagree with ORS' means of calculating these costs and recommend that

1 the most current quantities and costs be used to make the calculation. The use of a two
2 past year average for quantities is unrealistic.

3 Q. PLEASE EXPLAIN CIPOA'S POSITION REGARDING CAPITALIZATION OF
4 PUMP REPAIR EXPENSES.

5 A. The costs appear to be relatively minor when compared to the cost of a new unit and, as
6 such, should be expensed. In fact, any item costing under \$1,000 should be expensed
7 even if it is normally a capital item.

8 Q. MR. BURNETT INDICATES THAT AVAILABILITY FEES HAVE NOT BEEN
9 INCLUDED IN OPERATING REVENUE FOR THE PURPOSE OF RATEMAKING
10 SINCE THE INCEPTION OF THE COMPANY. HOW DO YOU RESPOND?

11 A. I agree with ORS that availability fees should be included in revenues.

12 Q. MR. BURNETT INDICATED THAT GRINDER STATION REVENUES ARE NOT
13 REGULATED AND SHOULD NOT BE INCLUDED IN REVENUES. WHAT IS
14 CIPOA'S POSITION?

15 A. The NARUC System of Accounts provides that such income should be included in
16 revenues.

17 Q. HOW DO YOU RESPOND TO MR. BURNETT'S ASSERTION THAT YOUR
18 TESTIMONY REGARDING TAP-ON FEE EXPENSES IS INCORRECT?

19 A. Mr. Burnett indicates that \$33,585 represents bona fide expenses. CUC's filing does not
20 include information about how these expenses were applied to the fees received.

21 Q. WOULD YOU LIKE TO PROVIDE ANY ADDITIONAL INFORMATION
22 CONCERNING PURCHASED WATER EXPENSES AND THE MALFUNCTIONING
23 METER WHICH MEASURES WATER PURCHASED FROM BJWSA.

1 A. Yes. It was difficult to determine if the master meter from BJWSA was failing to register
2 some of the flow based on the information provided by CUC. In response to ORS data
3 requests, CUC provided invoices for January 2004 through May 2004 which reflected 0
4 flow through the high flow side of the meter. These same bills showed that the high flow
5 side of the meter was registering significant amounts during the comparable period in
6 2003. CUC also provided total consumption figures for 2002 - 2004 which further
7 confirmed that the master meter had under-registered on the high flow side at some time.
8 Upon reviewing the following figures provided by CUC in response to ORS Data request
9 no. 1.45, I compared the gallons purchased to the gallons sold.

	Gallons Purchased	Gallons Sold
2002	108,646,000	99,152,913
2003	65,419,000	76,565,120
2004	81,739,000	92,626,850
TOTAL	255,804,000	268,344,883

15 According to CUC's figures, CUC sold 91.3% of the gallons it purchased in 2002. I
16 applied this same percentage to the figures given for the 2004 test year to make my
17 proposed adjustment. Using the current BJWSA purchased water rate, I have revised my
18 Exhibit 6 which is attached to my Revised Testimony.

19 Q. DOES THIS CHANGE AFFECT ANY OTHER EXHIBITS OR TESTIMONY
20 SUBMITTED WITH YOUR DIRECT TESTIMONY?

21 A. Yes, it affects both Exhibits 2 and 3. Exhibit 2 shows the operating income and expenses
22 per books, adjustments and pro forma at existing rates using the corrected current
23 BJWSA purchased water rate. Exhibit 3 is a Source and Application of Funds Statement.
24 It classifies and quantifies all of the company's sources of income and then shows where
25 the income is used on a cash basis. It is not related to accounting procedures. All of the

1 items shown under "Source" reflect cash income. The items under "Application"
2 indicates where the income was spent by category. Money remaining after expenses is
3 available to pay income taxes and for return to the stockholders. From a cash flow basis
4 using the proposed rates, \$265,237 would remain to pay taxes, interest on debt, and
5 stockholders. I did not include income items such as late charges, grinder station sales,
6 miscellaneous income or interest income. I have revised both exhibits which are attached
7 to the Revised Testimony, Exhibit A. This adjustment also changed the figures related to
8 the revenue deficiency as illustrated in Exhibit 2 which affected the percentages of
9 increase needed for the company to break even in my direct testimony which resulted in
10 revisions to pages 5 through 10. The changed amounts are underlined in my revised
11 testimony.

12 Q. PLEASE RESPOND TO MR. BURNETT'S POSITION THAT THE COMPANY'S
13 STOCKHOLDERS HAVE NOT EARNED ANY DIVIDENDS FROM CUC.

14 A. The figures presented do not reflect how the funds for tap fees or availability fees were
15 used to determine whether these funds were treated as profits for distribution.

16 Q. HOW WOULD THE ELIMINATION OF THE 2500 GALLONS ALLOWANCE IN
17 THE BASE CHARGE AFFECT CONSERVATION EFFORTS?

18 A. My concern is that the customer who is currently using 2500 gallons or less per month
19 pays \$13.50 per month in charges for each service. With the proposed change in the rate
20 structure, this same customer's bill would increase 116.67%. As illustrated in Exhibit 4 of
21 my Direct Testimony, the more water you use, the less percentage of increase you pay.
22 This would not encourage conservation. Following is an illustration:

Usage -- Gallons / Month	Percentage of Increase in Bill
2500	116.67%
5000	86.62%
20,000	48.31%

1 Q. DO YOU HAVE ANY CONCLUDING REMARKS?

2 A. CIPOA is concerned that the company has not followed the Commission's earlier order
3 or regulations regarding its accounting practices. I have reviewed the annual reports and
4 compared figures provided in this proceeding and noted the following discrepancies.

	Application	PSC Annual Report	Maready Testimony
Water Revenues	\$371,810	\$395,293	\$395,293 (Ex. B)
Sewer Revenues	\$147,565	\$165,992	\$165,992 (Ex B)
Fixed Assets	\$280,599		\$280,599 (Ex C)
Utility Plant in Service		\$498,173	
Accumulated Depreciation	\$276,376	\$276,932	\$276,376 (Ex. C)

5
6 CUC was required in Order No. 92-114 to "maintain its books and records for water and
7 sewer operations in accordance with the NARUC Uniform System of Accounts for Class
8 A and B Water and Sewer Utilities." CUC has indicated that it intends to bring the
9 company into compliance. CIPOA is concerned that the utility has not been held
10 accountable for failing to comply with the Commission's 1992 order. In light of this
11 failure, periodic audits should be made in the future to insure that the company is in
12 compliance.

13 Q. DOES THIS CONCLUDE YOUR SURREBUTAL TESTIMONY?

14 A. Yes.

EXHIBIT A

**REVISED TESTIMONY OF
GEORGE B. FLEGAL, JR.**

DOCKET 2005-87-W/S

Q. Please state your name and address.

A. My name is George B. Flegal, Jr. and my home address is 28 Spring Island Drive, Okatie, SC 29909 where I have lived for about nine years.

Q. Are you presently employed?

A. No, I am retired.

Q. Would you please give your educational background?

A. I graduated from West Virginia University in January, 1951, with a BS degree in Civil Engineering. I also accumulated 20 hours toward a Masters degree in Engineering but decided to expand instead of narrow my focus so I took courses in accounting, finance and management along with numerous seminars pertaining to the water and wastewater utility business.

Q. Would you please briefly describe your work background?

A. After graduation from college, I was employed for six months as a party chief of a mining surveying crew. I was then called to active duty as a Second Lieutenant in the Army Corps of Engineers for two years, one of which was spent in Korea with the 409th Engineer Brigade during the Korean war.

From 1953-1961, I was employed as Engineer-Manager of the Morgantown Water Commission in Morgantown, WV. This was a municipal system with approximately 8,000 customers.

I then worked for General Waterworks Corporation from the latter part of 1961 to March, 1990. General Waterworks was a utility holding company that owned and operated water, wastewater and steam heat utilities in sixteen states serving about 300,000 customers. Its

largest operations were located in New Rochelle, NY; Toms River, NJ; suburban Wilmington, DE; suburban Jacksonville, FL; suburban Miami, FL; suburban Harrisburg, PA; Pine Bluff, AR; and Boise, ID.

I was Assistant Division Manager and Division Engineer for the Delaware Division for about eight years located in Wilmington, DE. I was promoted to the position of Chief Engineer which I held for about four years and was located in the company's headquarters in Philadelphia, PA. In 1972, I was transferred to the company's Western Region office in Pine Bluff, AR where I served for five years as a Region VP and was responsible for our companies in AR, MO, IL, IN, MN, ID, OR and CA. I was then promoted to the position of Senior VP-Operations located in the company's headquarters in Philadelphia, PA. I held this position for about twelve years until my retirement.

I have been a Registered Professional Engineer in the states of WV, PA, MD, AR, IL, MO and IN.

Q. Have you been involved in rate proceedings before?

A. Yes, I have supervised the preparation of and testified in at least sixteen rate cases in the states of DE, AR, MO, IL, IN, ID, OR, CA and WV.

Q. About what subjects did you testify in those cases?

A. Everything except cost of money.

Q. Are you a customer of CUC, Inc.?

A. Yes, I am a regular water customer, an irrigation customer and a sewer customer and have been such for approximately nine years.

Q. Have you reviewed the testimony and exhibits of CUC, Inc which were submitted in this matter?

A. Yes, I have.

Q. Do you have any comments concerning the company's adjustments to revenues per books as shown in Exhibit A of witness Maready?

A. Adjustments (1) and (2) create a problem in that the tap fees should technically be recorded as contributions in aid of construction and deducted from utility plant in service

to calculate rate base but in this instance, they are being used to produce income to the benefit of the company. The total tap fee revenues were \$39,375 while the related costs were \$5,790, as shown in adjustments 12 and 13, which yields a net gain of \$33,585. If CUC were a normal utility with a reasonable rate base, this net gain would be used to reduce rate base and subsequently the company's revenue requirement. Because the company has essentially no rate base and will not build up any if the proposed tariffs are approved in their present form, I propose that the company be required to make some investment in its plant by eliminating all tap fees so that the company will bear the cost of installing services, meters and meter boxes for water customers and laterals for wastewater customers. Tap fees are appropriate in an instance where adding new customers costs more than the historical cost per customer which results in old customers having to pay higher rates due to new customers. This is certainly not the case in this instance.

Q. Do you have any comments concerning availability fees?

A. I am of the opinion that the availability fees, in the amount of \$44,268, should be included in the test year revenues. These fees are the same as a ready to serve charge or a base facilities charge as referred to in the company's tariff. This fee, which is paid for vacant lots, provides the company with an incentive and return to operate the water and wastewater systems until replaced by revenues from houses built thereon and there is no reason that the company's customers should not benefit from these revenues. These revenues are a direct result of the operation of the water and wastewater systems. If the systems did not exist, there would be no availability fees. While this Commission removed these fees from revenues in its Order No. 92-114 in Docket No. 91-041-W/S, I feel that it is appropriate for this Commission to revisit this matter and to reverse its previous position. This Commission certainly has the authority to do so in accordance with Article 7, Sub-article 103-703 paragraphs A., B. and C.

Q. Do you have any other comments concerning revenue adjustments?

A. Yes, if the availability fees are included in revenues, the late charges of \$2,144 relating

thereto should also be included.

Q. Do you have any comments concerning revenues from grinder stations-net?

A. I interpret this number, \$10,210, to be profit made from the sale of grinder stations which is, again, revenue received as a result of CUC's operation of the wastewater system and as such it should be included in revenues so as to benefit the company's customers.

This would normally be classified under the merchandising and jobbing account.

Q. What about the interest income deduction?

A. This was interest earned on revenues collected from customers and, again, it should be included to the benefit of the customers.

Q. Does this conclude your comments concerning the company's adjustments to test year revenues?

A. Yes. Exhibit No. 2 shows the adjustments that I have discussed.

Q. Taking into account your proposed revenue adjustments, what would the company's pro forma revenues at existing rates, be?

A. The pro forma revenues would be \$574,375 as opposed to the company's pro forma revenues of \$520,040.

Q. Let's now turn to the company's proposed adjustments to expenses, per books. Do you have any comments concerning any of these adjustments?

A. Yes, I have previously discussed adjustments 12 and 13. I pointed out that as I interpreted the tap fees situation, there was a profit of \$33,585 which the company proposes to deduct in adjustment 14. If the revenue requirement were to be determined by rate of return on rate base and this were to be deducted from rate base, this would be alright and if the tap fees are eliminated, as I have proposed, it would be alright. If neither of these is done, the \$33,585 should be added to revenues to increase the pro forma revenues to \$607,960.

Q. Would you please discuss the adjustments that you have made to Expenses in Exhibit No. 2?

A. I have accepted, subject to checking, the Company's adjustments for salaries, wages

and benefits of \$1,781, tap-on expenses of (\$5,790), repairs and maintenance of (\$50,854), insurance of \$22,661, office & related expenses of \$1,209 and interest expense \$1,407. I have changed the adjustment for taxes other than income to \$506 to reflect the greater increased revenues; the adjustment for depreciation to \$0 to reflect the proposed change in depreciation rates; and the adjustment for rate case expense to \$2,071 to reflect a 7-year amortization.

Q. You didn't mention the adjustment for purchased water. How did you treat it?

A. The company did not provide any substantiation of its adjustment but it did provide the monthly bills rendered by BJWSA for the period 1/1 04 to 5/31/04 which did show that there was no flow recorded for the high flow side of the meter. Contrary to the company's statement that the meter had stopped, only the high flow side of the meter stopped. Evidently the meter is a compound meter which is essentially two meters in one casing where one side records low flows and the other side records high flows. To calculate my adjustment, I used data provided by the company that showed the amount of water purchased and the amount sold by the Company for 2002, 2003 and 2004. This information is shown on Exhibit No. 6 along with the calculation which results in my recommended adjustment of \$51,948.

Q. Would you please explain how you calculated the adjustment.

A. I calculated the "Accounted For" water by dividing the water sold by the water purchased. Due to what I assumed was the under-registration of BJWSA's meter in 2003 and 2004, because the total water purchased was less than the total water sold, I used the accounted for figure of 91.3%, in 2002, to calculate what the amount of purchased water for 2004 should be. This was obtained by dividing the water sold for 2004 by 91.3%. I then applied BJWSA's rate of \$1.64 per thousand gallons to calculate the adjustment of \$51,948. I want to point out that a common calculation made for water systems is for "unaccounted for water". If the system is a good one, the unaccounted for water should be in a range up to 15% so that by using accounted for water of 91.3%, I am saying that the Company's unaccounted for water is 8.7% which is not unreasonable for a water system of its relatively young age.

Q. Would you please discuss depreciation?

A. Depreciation is generally defined as a means of recovering the cost of an asset over the life of the asset so that the funds will be available to replace it. This means that the assumed life of any asset determines its annual depreciation rate. To the best of my knowledge, the company has been using the depreciation rates utilized by the Commission staff for the Company's last rate case which employed 1990 as the test year. In Exhibit No. 1, I have listed the rates recommended by the Commission Staff in the last rate case and I have also listed the rates which I recommend. From this Exhibit it can be seen that the differences occur in the plant accounts where the major investments are, such as sewer plant, sewer mains and water mains. The staff's rates were all higher in these categories which has allowed much more rapid depreciation than would normally be done for regulatory purposes. I recommend that the rates for the major plant accounts as mentioned, be changed to bring them in line with accepted practice. I would also urge the staff to insist that the Company bring its plant records up to date and that it submit factual, correct annual reports.

Q. How did you treat the Company's adjustment for depreciation?

A. I eliminated their proposed adjustment but did retain the depreciation recorded per books for 2004. The reason for this is that the company failed to supply any information relative to plant accounts on which to base a calculation.

Q. What is your opinion about the company's amortization of its rate case expense?

A. If we go by past experience, it should be amortized over fourteen years which is the length of time between the 1990 test year and the 2004 test year, but I feel that seven years would be reasonable. This would reduce the adjustment from \$2,900 to \$2,071.

Q. What conclusions do you draw from your Exhibit No. 2?

A. Because CUC, Inc. has no rate base for all practical purposes, about the only thing to which it is entitled for regulatory purposes is the recovery of its expenses plus some excess for emergency repairs and capital improvements. As Exhibit No. 2 shows, the revenue deficiency is \$105,714. With revenues of \$574,375 at existing rates, an increase of only 18.4% is required for CUC to break even. If CUC were allowed about 5% over

and above the break even point, this would mean an additional \$34,000, or a 24.32% increase.

Q. Have you also looked at the Company's Results of Operations from another perspective?

A. Because the Company has been experiencing an operating loss since it was awarded such in this Commission's Order 92-114, I was curious as to how it managed to remain financially viable so I looked at the statements submitted by the Company from a cash flow point of view. To do this, I developed a Source and Application of Funds Statement Per Books and at Proposed Rates which is shown in Exhibit No. 3.

Q. Would you please discuss this Exhibit?

A. In this Exhibit, I have employed the adjustments to revenues and expenses that I have previously discussed pertaining to the Per Books statement. This results in a positive cash flow of \$1,475. This means that for the Test Year of 2004, the Company's present rates produced sufficient funds to pay all expenses with some money left over. Using these same adjustments and the company's revenues at proposed rates and their other adjustments to expenses there is a resulting positive cash flow of \$265,237 which is certainly excessive. I am of the opinion that this Exhibit demonstrates that the Company's proposed rates are way out of line.

Q. Taking into account your projected positive cash flow at proposed rates, what does this mean financially to the two equal stockholders of CUC, Inc., Billy F. Burnett and Susan B. Mikell?

A. In addition to their compensation of \$68,156 and \$41,156, respectively, they would get an equal share of the cash flow of \$265,237, or \$132,618.50 each, annually.

Q. Would you please comment on the rate structure as proposed by the company.

A. The major change proposed by the Company to the rate structure, other than the increase in charges for various items, is the elimination of the water allowance of 2,500 gallons included in the minimum or base facilities charge.

Q. What impact does this proposal have on the customers?

A. If a customer uses up to 2,500 gallons per month under the Company's proposed rates,

he will get a disproportionate percentage rate increase. For example, if he has a 5/8"x3/4" meter and uses 2,500 gallons, his charge will increase from \$13.50 to \$29.25 which is an increase of 116.67%. If a customer has the same size meter and uses 5,000 gallons, his charge will increase from \$20.63 to \$38.50 which is an increase of 86.62%. For a third example, if the usage changes to 20,000 gallons, the charge will increase from \$63.38 to \$94.00 which is an increase of 48.31%. One has to conclude from such an analysis that the proposed rates are not designed to encourage conservation and, also penalize the small user.

Q. Do you have an Exhibit that illustrates what you have just discussed?

A. Yes, in fact, I would like to submit two Exhibits pertaining to this subject. Exhibit No. 4 shows the percent increase in the water bill for a 5/8"x3/4" meter at consumptions from 0 to 20,000 gallons. The same percentage increases apply to charges for water plus sewer because the charge for sewer equals the charge for water, This is also true for irrigation water charges. Exhibit No. 5 shows a comparison of water and water + sewer charges for the same size meter and for the same consumptions under the Company's present and proposed rates.

Q. Did you also look at the proposed elimination of the usage allowance in the base charge from a different perspective?

A. Yes, in normal rate design, it is customary to establish a base or minimum charge which allows the utility to essentially recover its fixed costs and the commodity charge then recovers the variable costs. Fixed costs are defined as those costs that continue at a fairly constant level regardless of the amount of water produced or wastewater treated. Variable costs are those costs vary with the amount of water produced or wastewater treated. Generally a study is required to determine the fixed and variable costs. In this instance, I have done, what I call a "down and dirty" study, to see what the fixed costs are for the Company and how nearly the rates conform to this design principle.

This study is shown on my Exhibit No. 7. The costs which I have used are those set forth in Mr. Maready's Exhibit A, column 5, and include the categories of Salaries, Wages &

Benefits, Repairs & Maintenance, Insurance, Other Taxes, Office & Related Expenses, Depreciation, Interest Expense, Miscellaneous and Rate Case Expenses. These total \$480,690. Using the number of customers at 12/31/04, provided by the Company of 648 water, 415 irrigation, 590 sewer, 428 sewer availability and 486 water availability, this gives a total of 2,567 monthly bills which calculates to a \$15.60 base charge which would fit in reasonably with my proposed base charge of \$16.29 utilizing my across-the-board 20.7% increase. The \$20.00 base charge proposed by the Company is approximately one-third higher than the study indicates.

Q. Do you have any general comments that you would like to make about CUC's presentation?

A. First, I believe that, technically, CUC, Inc.'s application should have been rejected because it did not include information required by the Commission's Rules and Regulation 103-834, A., (3),(g) to show rates of return on rate base and on common equity. These measures are the basis of rate regulation. According to the Commission's rule 103-719, CUC, Inc. is required to keep its accounting records in accordance with the NARUC Uniform System of Accounts which the Company has totally ignored. If necessary, it should be keeping two sets of books, one for regulatory purposes and one for tax purposes. A review of the last two year's Annual Reports to the Commission revealed a lack of compliance with the requirements thereof. In summary, I would say that CUC, Inc. has done a very poor job on the accounting and administrative side of the business. Further, in my thirty-seven years in management in the utility business and my involvement in one manner or another in over 100 rate proceedings in 18 states, I have never seen such a situation where a utility had essentially no rate base and operated on a negative operating income. This situation needs to be corrected starting with the elimination of the tap fees and further requiring the Company to make capital investments in the utility plant. The Company should also be required to conform to the NARUC System of Accounts and the Commission Staff should make quarterly audits of the books to insure compliance.

Q. Would you please summarize your recommendations with respect to this case?

A. My general recommendations are that CUC, Inc. be required to conform to the following:

1. Maintain its books and records in conformance with the appropriate NARUC System Of Accounts.
2. Submit correct Annual Reports to the Commission.
3. Conduct an audit to establish plant account additions by year along with a depreciation study to develop the current accumulated depreciation for each appropriate plant account which will be kept current.

My recommendations so far as the requested rate increase is concerned are as follows:

1. The rate structure should retain its present design by allowing a consumption of 2,500 gallons in the minimum or base charge to avoid discriminatory increases for different customers and to encourage some water conservation.
2. All existing water and sewer rates should be increased by no more than 20.7%.
2. All Tap-In fees should be eliminated and the Company should be required to bear the cost of all water services, meters and installations as well as the cost of the installation of sewer laterals and grinder stations, all of which should be capitalized.
3. The proposed "Notification, Account Set-Up and Reconnection Charges" should be eliminated.

Q. Does this conclude your testimony?

A. Yes, it does.

DOCKET NO. 2005 - 87 - WS

DEPRECIATION RATES

PLANT ACCOUNT	PSC RATES	GBF RATES
SEWER PLANT	3.33	2.00
SEWER MAINS	2.50	2.00
SEWER PUMPS	5.00	4.00
WATER MAINS	2.50	1.12
WATER SERVICES	NONE	2.50
METERS & INSTALLATION	NONE	2.00
TRANSPORTATION EQUIPMENT	20.00	20.00
OFFICE FURN. & EQUIPMENT	20.00	20.00

DOCKET NO. 2005 - 87 - WS**CUC, INC.**
OPERATING INCOME AND EXPENSES
(At Existing Rates)

	TEST YEAR		
	PER BOOKS	ADJUSTMENTS	PRO FORMA
REVENUES			
WATER	180,048		180,048
SEWER	147,565		147,565
IRRIGATION	191,762		101,762
TAP FEES			
WATER	23,450	(23,450)	
SEWER	15,925	(15,925)	
AVAILABILITY FEES			
WATER	23,484		23,484
SEWER	20,784		20,784
EPA CHARGES	3,760	(3,760)	
LATE CHARGES	2,558		2,558
BILLING ADJUSTMENTS	(2,357)		(2,356)
GRINDER STATIONS - NET	10,210		10,210
MISCELLANEOUS	251		251
INTEREST INCOME	70		70
TOTAL REVENUES	617,510	(43,135)	574,375
EXPENSES			
SALARIES, WAGES, BENEFITS	263,502	1,781	265,283
PURCHASED WATER	114,435	51,948	166,382
PURCHASED POWER-SEWER	40,874		40,874
TAP-ON EXPENSES			
WATER	4,790	(4,790)	
SEWER	1,000	(1,000)	
REPAIRS AND MAINTENANCE	104,142	(50,854)	53,288
INSURANCE	74,221	22,661	96,882
TAXES OTHER THAN INCOME	8,412	506	8,918
OFFICE AND RELATED EXPENSES	29,514	1,209	30,723
DEPRECIATION	13,505		13,505
INTEREST		1,407	1,407
MISCELLANEOUS	756		756
RATE CASE EXPENSES		2,071	2,071
TOTAL EXPENSES	655,151	24,939	680,089
OIBIT	(37,641)	(68,074)	(105,714)

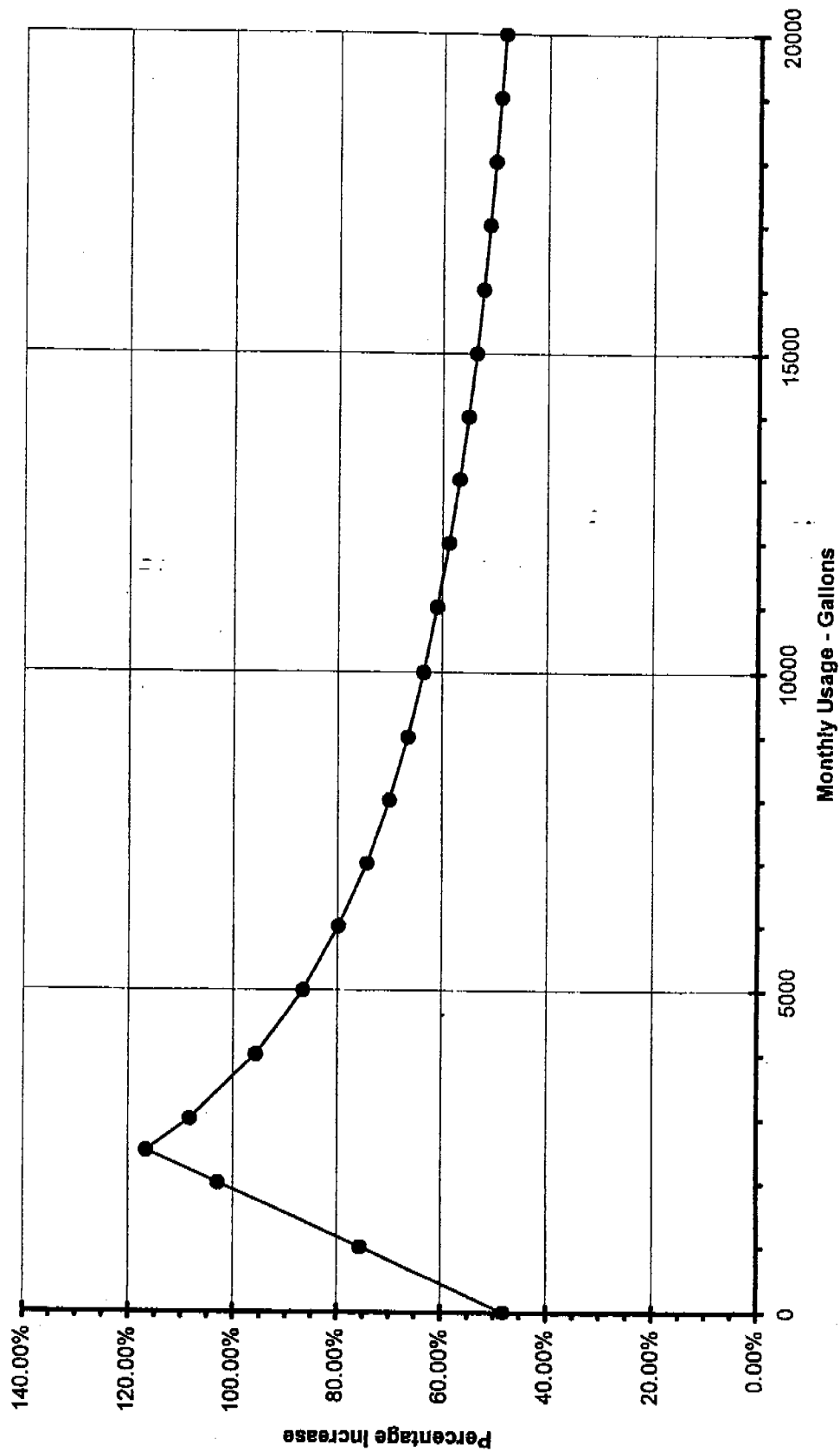
CALLAWASSIE ISLAND POA
EXHIBIT NO. 2 REV

DOCKET NO. 2005 - 87 - WS**CUC, INC. SOURCE AND APPLICATION OF FUNDS**

	Per Books	At Co Prop Rates	At GBF Prop Rates
SOURCE			
Water revenues	180,048	302,469	223,836
Sewer revenues	147,565	277,489	183,453
Irrigation revenues	191,762	295,575	238,399
Water tap fees net	18,660	23,450	0
Sewer tap fees-net	14,925	15,925	0
Availability fees-water	23,484	23,484	29,195
Availability fees-sewer	20,784	20,784	25,839
Late charges	2,558	0	0
Sale of grinder stations-net	10,210	0	0
Miscellaneous	251	0	0
Interest income	70	0	0
Depreciation	13,505	13,505	13,505
TOTAL	623,822	972,681	714,227
APPLICATION			
Salaries, wages, benefits	263,502	265,283	265,283
Purchased water	114,435	168,787	166,382
Electric power	40,874	40,874	40,874
Repairs and maintenance	90,633	90,633	53,288
Insurance	74,221	96,882	96,882
Taxes other than income	8,412	10,606	8,918
Office and related expenses	29,514	30,723	30,723
Miscellaneous	756	756	756
Rate case		2,900	2,071
TOTAL	622,347	707,444	665,177
NET	1,475	265,237	49,050

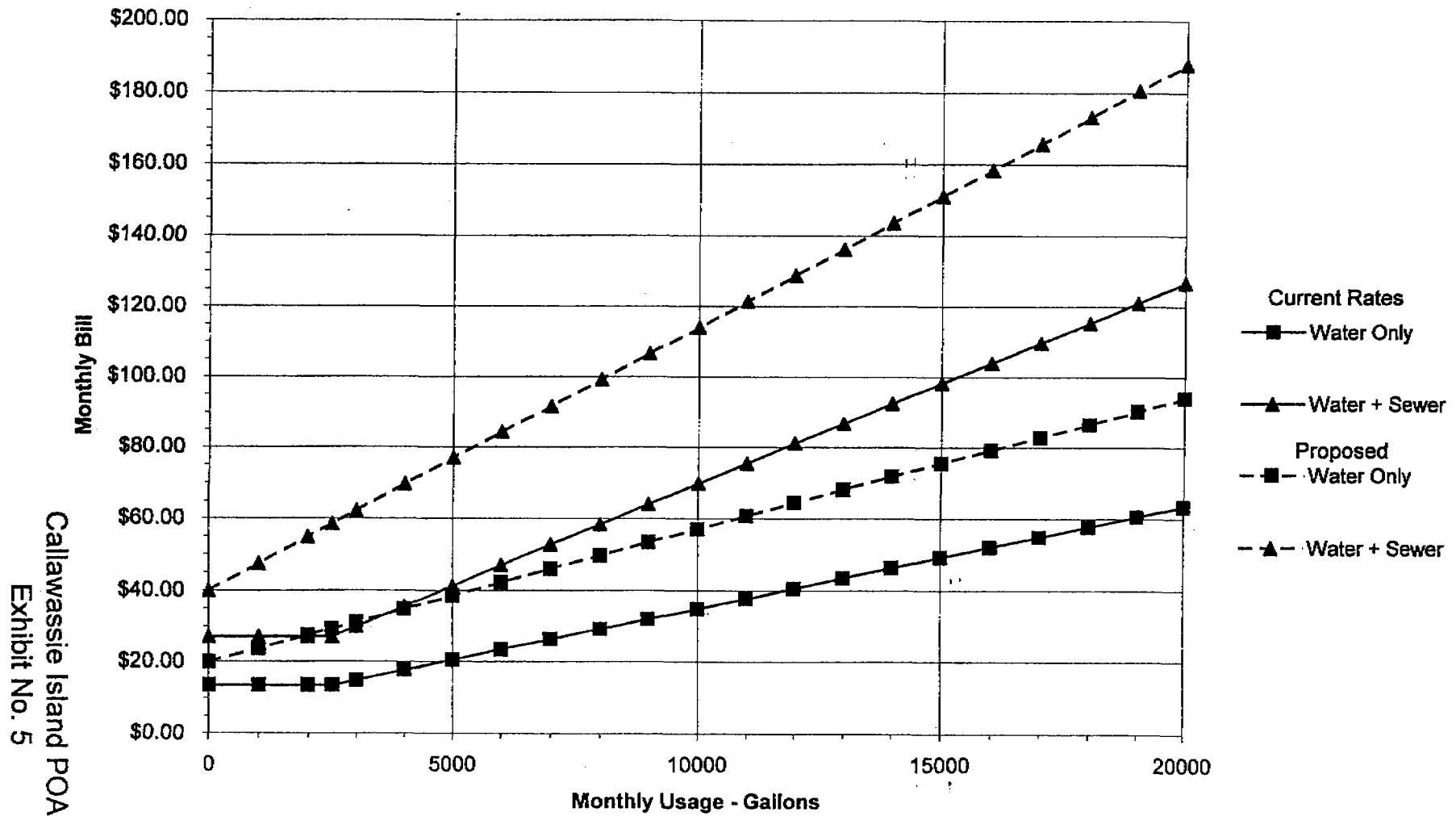
**Callawassie Island POA
Exhibit No. 3 REV.**

Docket No. 2005-87-WS
Impact of CUC Rate Increase Filing
Residential, 3/4" Metering Assumed



Callawassie Island POA
 Exhibit No. 4

**Docket No. 2005-87-WS
Impact of CUC Rate Increase Filing
Residential, 3/4" Metering Assumed**



DOCKET NO. 2005 - 87 - WS

CUC, Inc. ADJUSTMENT FOR PURCHASED WATER

YEAR	WATER PURCHASED (\$)	WATER PURCH. (000 GAL)	WATER SOLD (GAL)	% ACCOUNTED * FOR
2002	N/A	108,646	99,152,913	91.3
2003	91,587	65,419	76,565,120	117.0
2004	114,435	81,739	92,626,850	113.3

Adjusted 2004 using % Accounted for in 2002

166,382	101453	92,626,850	91.3
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Adjustment 51,948

% Accounted for = Sold / purchased
Purchased Water Rate = \$1.64/000 gal.

DOCKET NO. 2005 - 87 - WS**STUDY - RE: BASE CHARGE**

FIXED COSTS	AMOUNT (\$)*
Salaries, Wages & Benefits	265,384
Repairs & Maintenance	53,288
Insurance	96,882
Taxes, Other	8,074
Office & Related Expenses	30,723
Depreciation Expense	21,276
Interest Expense	1,407
Miscellaneous	756
Rate Case Expense	2,900
TOTAL FIXED COSTS	480,690

No. of Customers @ 12/31/04	
Water	648
Irrigation	415
Sewer	590
Water Availability	486
Sewer Availability	428
Total	2,567
Monthly Revenue/Customer	15.60

* From Maready Exhibit A Column (3)

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-87-WS**

In Re:

)
)
Application of CUC, Inc. for)
Approval of New Schedule of Rates)
and Charges for Water and)
Sewerage Service Provided to its)
Customers at Callawassie Island)
and Spring Island in Beaufort)
County

CERTIFICATE OF SERVICE

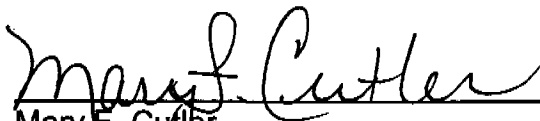
This is to certify that I, Mary F. Cutler, a legal assistant with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Surrebuttal Testimony of George B. Flegal, Jr.** in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

Steven G. Mikell, Esquire
Mikell Law Firm
310 West Pine Street
Florence, SC 29501

Shannon Hudson, Esquire
Office of Regulatory Staff
1441 Main Street, 3rd Floor
Columbia, SC 29201

Dan F. Arnett, Chief of Staff
Office of Regulatory Staff
1441 Main Street, 3rd Floor
Columbia, SC 29201

Dated at Columbia, South Carolina this 25th day of August, 2005.


Mary F. Cutler